

Message Text

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C O N F I D E N T I A L BELGRADE 1405

DEPARTMENT PASS EXIM FOR ALBRIGHT

E.O. 11652: GDS
TAGS: EFIN, YO
SUBJECT: EXIMBANK'S OPERATING PROCEDURES

REF: A) BELGRADE 1368, B) BELGRADE 1404

SUMMARY: FINANCE SECRETARIAT INFORMED EMBASSY EVANS TODAY OF GOY'S "PRELIMINARY BUT CONCRETE REACTIONS" TO EXIM'S PROPOSED MEMORANDUM OF UNDERSTANDING. PROPOSALS CONTAINED IN PARAS 3, 4, AND 5 OF MEMORANDUM ARE ALL "NOT ACCEPTABLE". FURTHERMORE, MEMORANDUM "CANNOT BE A BASIS FOR FUTURE DISCUSSIONS". OFFICIAL WRITTEN RESPONSE PROMISED IN NEAR FUTURE. END SUMMARY.

1. FINANCE SECRETARIAT COUNSELOR JELIC REQUESTED MEETING THIS MORNING WITH ECON COUNS AS FOLLOW UP TO AMBASSADOR'S FEB. 17. MEETING WITH CEMOVIC AND PRESENTATION OF EXIM'S PROPOSED MEMORANDUM OF UNDERSTANDING. JELIC BEGAN BY SAYING THAT THE MEMORANDUM IS NOW BEING STUDIED IN THE GOVERNMENT AND THAT AN OFFICIAL WRITTEN RESPONSE WOULD BE PREPARED SOON. HOWEVER, HE SAID, IN VIEW OF THE "BIG VISIT" COMING UP AND THE SHORT TIME REMAINING, HE WANTED TO PASS ON THE FOLLOWING "PRELIMINARY BUT CONCRETE REACTIONS".

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2. IN GENERAL, JELIC SAID, THE EXIM MEMORANDUM IS NOTHING NEW AND IS ABOUT THE SAME AS THE PROPOSAL IN CHAIRMAN MOORE'S SEPTEMBER 1977 LETTER, WITH VERY SMALL DIFFERENCES.

3. WITH REFERENCE TO PARA 3 IN THE MEMORANDUM REGARDING COMMERCIAL BANK GUARANTEES, THE GOY FINDS THIS "NOT ACCEPTABLE TO HAVE IN A BILATERAL DOCUMENT" (E.G., THE PROPOSED MEMORANDUM

OF UNDERSTANDING. JELIC EXPLAINED THAT IT IS NOT ACCEPTABLE FOR SUCH A DOCUMENT TO SPECIFY AN OBLIGATION BY THE COMMERCIAL BANKS TO ISSUE A JOINT GUARANTEE FOR A CREDIT AGREEMENT. IF YUGOSLAVIA WERE TO ACCEPT THIS, HE SAID, IT WOULD MEAN THE GOY AUTOMATICALLY ACCEPTS THE FACT THAT YUGOSLAV COMMERCIAL BANKS ARE NOT CREDITWORTHY. ECON COUNS POINTED OUT THAT IN FACT EXIM HAS ALREADY RECEIVED JOINT GUARANTEES FROM SEVERAL COMMERCIAL BANKS IN A NUMBER OF TRANSACTIONS. JELIC REPLIED THAT THIS IS TRUE IN LARGE CASES, BUT THAT EXIM WAS NOW PROPOSING THAT JOINT GUARANTEES BE GIVEN FOR TRANSACTIONS OVER ONE MILLION DOLLARS. IN FURTHER DISCUSSION HE ACKNOWLEDGED THAT A JOINT GUARANTEE FROM SEVERAL COMMERCIAL BANKS COULD "EASILY" BE ARRANGED FOR LARGE TRANSACTIONS, BUT REPEATED THAT THE GOY CANNOT OBLIGATE YUGOSLAV COMMERCIAL BANKS IN A BILATERAL DOCUMENT.

4. WITH REFERENCE TO PARA 4 IN THE MEMORANDUM REGARDING FOREIGN EXCHANGE ASSURANCES, JELIC SAID THERE WAS A "BIG MISUNDERSTANDING" HERE. THIS IS BECAUSE, ACCORDING TO YUGOSLAV REGULATIONS, A FOREIGN EXCHANGE ASSURANCE WOULD HAVE THE SAME VALIDITY AS A SUPERGUARANTEE BY THE NATIONAL BANK, AND WOULD HAVE TO BE ISSUED THROUGH A SPECIAL LAW PASSED BY THE FEDERAL ASSEMBLY. THE BASIS FOR THIS INTERPRETATION IS ARTICLE 168 OF THE NEW LAW ON FOREIGN EXCHANGE OPERATIONS AND FOREIGN CREDIT RELATIONS, UNDER WHICH A FOREIGN EXCHANGE ASSURANCE IS CONSIDERED TO BE A "WARRANTY" AS SPECIFIED IN THAT ARTICLE.
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THUS, JELIC SAID, THE ISSUING OF FOREIGN EXCHANGE ASSURANCES WOULD "NOT BE ACCEPTABLE" ON THE SAME BASIS AS ISSUANCE OF SUPERGUARANTEES WOULD "NOT BE ACCEPTABLE". ECON COUNS REFERRED TO SEPT. 1977 MEETING BETWEEN CEMOVIC AND MOORE IN WASHINGTON AT WHICH TIME CEMOVIC HAD APPEARED FORTHCOMING ON THE SUBJECT OF FOREIGN EXCHANGE ASSURANCES, TO WHICH JELIC REPLIED THAT COMOVIC HAD ONLY PROPOSED A LETTER (FROM HIM TO MOORE) IN WHICH HE WOULD PROVIDE AN INTERPRETATION OF YUGOSLAV REGULATIONS REGARDING FOREIGN EXCHANGE TRANSACTIONS AND HOW COMMERCIAL BANK OBLIGATIONS ARE FULFILLED. JELIC REPEATED THAT EXIM'S PROPOSAL WAS NOT ACCEPTABLE AND THAT IT REPRESENTED ONLY A CHANGE FROM ONE TYPE OF GUARANTEE TO ANOTHER. ECON COUNS POINTED OUT THAT EXIMBANK REGULARLY RECEIVES FOREIGN EXCHANGE ASSURANCES FROM A NUMBER OF OTHER COUNTRIES, AS THE AMBASSADOR HAD EXPLAINED IN HIS MEETING WITH ECMOVIC. JELIC REPLIED THAT THE FINANCE SECRETARIAT HAD CONDUCTED ITS OWN INVESTIGATION OF THIS SUBJECT WITH REGARD TO SUCH COUNTRIES AS GREECE, SPAIN, PORTUGAL, AUSTRIA, ITALY, THE NETHERLANDS, BELGIUM AND OTHERS. HE SAID THEY HAD FOUND THAT WITH ALL THESE COUNTRIES EXIM WAS SATISFIED WITH ASSURANCES FROM COMMERCIAL BANKS, EXCEPT FOR GREECE AND THEN ONLY IN CASES OF NATIONALIZED INDUSTRIES FOR WHICH THE GREEK FINANCE MINISTRY ISSUED A GUARANTEE.

5. WITH REFERENCE TO PARA 5 IN THE MEMORANDUM REGARDING GOVERNMENTAL GUARANTEES, JELIC SAID THIS WAS NOT THE MOST IMPORTANT POINT, BUT THAT IT WAS "NOT ACCEPTABLE AT ALL".

6. IN CONCLUSION JELIC SAID THAT THE YUUGOSLAV GENERAL REACTION, WHILE PRELIMINARY OF COURSE, IS THAT EXIM'S PROPOSED MEMORANDUM OF UNDERSTANDING "CANNOT BE A BASIS FOR FUTURE DISCUSSIONS". NOW, HE SAID, EXIM IS ASKING FOR THREE GUARANTEES--COMMERCIAL BANK GUARANTEES, FOREIGN EXCHANGE ASSURANCES AND THE UNCONDITIONA GOVERNMENTAL GUARANTEES. THIS MEANS, HE CONTINUED, THAT THE PROPOSALS IN THE MEMORANDUM OF UNDERSTANDING REPRESENT A "MUCH WORSE BASIS FOR COOPERATION THAN WHAT HAS PREVIOUSLY EXISTED". THE BANK, HE SAID, IS REPLACING THE SINGLE SUPER-
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GUARANTEE WITH THREE DIFFERENT OTHER GUARANTEES.

7. ECON COUNS REITERATED POINT MADE BY AMBASSADOR TO CEMOVIC THAT EXIM HAD MADE A SINCERE EFFORT TO TAKE YUGOSLAV CONCERNS INTO ACCOUNT AND REACH SATISFACTORY RESOLUTION OF ISSUE. JELIC REPLIED THAT THE GOY WOULD LIKE TO CONTINUE DISCUSSIONS WITH EXIM BECAUSE THE BILATERAL INTEREST WAS VERY HIGH TO FIND A COMMON SOLUTION. HE EMPHASIZED, HOWEVER, THAT YUGOSLAVIA TODAY IS NOT ISSUING ANY CENTRAL OR GOVERNMENTAL GUARANTEES TO ANY GOVERNMENT EXPORT AGENCY OR ANY PRIVATE COMMERCIAL BANK. ECON COUNS SAID THAT HE WOULD TRANSMIT THESE PRELIMINARY GOY REACTIONS TO WASHINGTON, THAT HE BELIEVED EXIM WOULD FIND THEM DISAPPOINTING, AND THAT HE COULD NOT SAY WHAT THE NEXT STEP WOULD BE.

8. AS ECON COUNS WAS LEAVING, JELIC MENTIONED CEMOVIC'S INVITATION TO SECRETARY BLUMENTHAL TO VISIT YUGOSLAVIA, AND EXPRESSED THE HOPE THAT BLUMENTHAL COULD SCHEDULE A VISIT IN EITHER MARCH OR APRIL, BEFORE THE CHANGES IN GOVERNMENT PERSONNEL BEGIN IN MAY (SEE REFTEL B). HE ALSO EXPRESSED THE HOPE THAT CHAIRMAN MOORE WOULD VISIT YUGOSLAVIA, BUT AFTER THE PROBLEM OF EXIM'S OPERATING PROCEDURES HAD BEEN "CLEARED UP".
EAGLEBURGER

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